

Message Text

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PAGE 01 EC BRU 10129 01 OF 02 231810Z

51

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

FRB-01 INR-05 NSAE-00 RSC-01 CIEP-01 SP-02 STR-01

TRSE-00 LAB-04 SIL-01 SAM-01 OMB-01 NEA-06 AF-04

ARA-06 INT-05 SS-15 NSC-05 L-02 H-01 FEAE-00 OES-03

SEC-01 /092 W

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R 231715Z DEC 74

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 8043

INFO ALL EC CAPITALS 194

LIMITED OFFICIAL USE SECTION 1 OF 2 EC BRUSSESL 10129

PASS TREASURY, FED, CEA

E.O. 11652: N/A

TAGS: EFIN, EEC

SUBJECT: EC COUNCIL (FINANCE) MEETING--A POST MORTEM

REF: A) EC BRUSSELS 10091 B) EC BRUSSELS 9877 C) EC BRUSSELS 9970

D) EC BRUSSELS 9280 E) EC BRUSSELS A-391, DEC. 18, 1974

1. SUMMARY:FURTHER CONVERSTAIONS WITH COMMISSION
OFFICIALS CONFIRM THAT THE DECEMBER 19 FINANCE COUNCIL
ACCOMPLISHED LITTLE OF SUBJSTANCE (REF A). NEVERTHELESS,
THE MINISTERS DID REPORTEDLY AGREE TO UNDERTAKE
CONTACTS WITH OPEC COUNTRIES IN ORDER TO LAUNCH THE
EUROPEAN COMMON BORROWING FACILITY. THEY ALSO AGREED
IN PRINCIPLE TO SMOOTH OUT EC CURRENCY FLUCTUATIONS
AGAINST THE DOLLAR. AMONG THE LONG LIST OF PROPOSALS
WHICH FELL FLAT, WAS A BELGIAN INITIATIVE TO
STRENGTHEN COMMUNITY COORDINATION OF ECONOMIC POLICY.
END SUMMARY.

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PAGE 02 EC BRU 10129 01 OF 02 231810Z

2. RECYCLING ISSUES: THE APPLICATION RESOLUTION FORMALLY SETTING UP THE EC COMMON BORROWING FACILITY WILL NOT BE OFFICIALLY AUTHORIZED UNTIL THE GERMAN AND DUTCH PARLIAMENTS APPROVE IT. GERMAN PARLIAMETARY APPROVAL IS EXPECTED BEFORE THE END OF THE YEAR. NEVERTHELESS, THE FINANCE MINISTERS REPORTEDLY AGREED THAT AN EXPERT GROUP OF COMMISSION AND MEMBER STATE OFFICIALS COULD BEGIN CONTACTS WITH OPEC COUNTIRES. COMMISSION OFFICIALS EXPECT THE LONDON EC FINANCE MINISTERS' MEETING TO AGREE TO SUPPORT AN EXPANSION OF THE IMF OIL FACILITY BY \$6-8 BILLION. THE MINISTERS MAY ALSO AGREE IN PRINCIPLE TO SUPPORT THE US PROPOSED OECD FACILITY, BUT MUCH MORE TIME WILL BE NEEDED BEFORE THE MINISTERS WILL BE PREPARED TO BE PRECISE ON THE US PLAN.

3. COORDINATED FLOATING: AT THEIR PRIVATE LUNCH THE FINANCE MINISTERS DISCUSSED THE PROPOSAL THAT EC CENTRAL BANKS SHOULD SMOOTH OUT DAILY EXCHANGE RATE FLUCTUATIONS OF EC CURRENCIES AGAINST THE DOLLAR (SEE REF B). THIS PROPOSAL HAD BEEN SENT TO THE COUNCIL BY A SUBGROUP OF THE CENTRAL BANKER'S COMMITTEE FOR DISCUSSION AT THE "POLITICAL LEVEL". THE MINISTERS REPORTEDLY AGREED TO THE PROPOSAL IN PRINCIPLE AND CONCURRED IN THE CENTRAL BANKERS' COMMITTEE CARRING IT OUT. THE MINISTERS, HOWEVER, REQUESTED THAT THE US BE CONSULTED BEFORE THE PROPOSAL IS IMPLEMENTED.

4. BELGIAN INITIATIVE: BELGIAN FINANCE MINISTERS DE CLERCQ SUBMITTED A DECLARATION TO THE COUNCIL WHICH PROPOSED THE FOLLOWING: 1) REINFORCEMENT OF THE COMMUNITY'S FINANCIAL ASSISTANCE TO MEMBER STATES IN BALANCE OF PAYMENTS DIFFICULTY; 2) CREATION OF A HIGH LEVEL "ORGAN" TO BE CONCERNED WITH CONDITIONS ON CREDITS TO MEMBER STATES AND WITH COORDINATION OF ECONOMIC POLICY; 3) STRENGTHENING THE EUROPEAN MONETARY COOPERATION FUND (DECOM); AND 4) ADOPTION OF A COMMON EC PORITION TOWARD THE VARIOUS RECYCLING PROPOSALS. (A COPY OF THIS PROPOSAL IS BEING POUCHED LIMITED OFFICIAL USE

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PAGE 03 EC BRU 10129 01 OF 02 231810Z

TO INTERESTED AGENCIES ALONG WITH OTHER DOCUMENTS PERTAINING TO THE COUNCIL MEETING.).

5. THE COUNCIL DID NOT REACT FAVORABLY TOWARD THE PROPOSAL AND PERMDEL AND COMMISSION OFFICIALS EXPECT THIS INITIATIVE TO DIE. BELGIAN AUTHORITIES HAD NOT DISCUSSED IT WITH OTHER DELEGATIONS BEFORE THE MEETING. AS A RESULT, THE MINISTERSDID NOT UNDERSTAND ITS

PURPOSE. SOME DELEGATIONS THOUGHT THE BELGIANS WERE CONCERNED THAT THE ITALIANS WOULD NOT LIVE UP TO THE TERMS OF THE EC MEDIUM CREDIT. CONSEQUENTLY THEY WANTED CONTINUOUS HIGH LEVEL SURVEILLANCE OF THE ITALIAN ECONOMIC PROGRAM. OTHERS AGREED THAT THE COMMUNITY'S FINANCIAL INSTITUTIONS COULD BE STRENGTHENED AND STREMLINED BUT THEY THOUGHT THE COMMUNITY ALREADY HAD MORE THAN ENOUGH FINANCIAL INSTITUTIONS.

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PAGE 01 EC BRU 10129 02 OF 02 231815Z

51

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R 231715Z DEC 74

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LIMITED OFFICIAL USE SECTION 2 OF 2 EC BRUSSELS 10129

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6. UNIT OF ACCOUNT (U.A.): DESPITE THE COUNCIL'S RESERVATIONS, THE COMMISSION IS URGENTLY PREPARING A PROPOSAL FOR A U.A. BASED ON A EUROCURRENCY BASKET (REFS A AND C). IT PLANS TO SUGGEST THIS U.A. FOR THE EUROPEAN DEVELOPMENT FUND AND PERHAPS THE EUROPEAN DEVELOPMENT FUND AND PERHAPS THE EUROPEAN INVESTMENT BANK (EIB). THE NY STOCK EXCHANGE RECENTLY CRITIZED THE EIB'S CURRENT U.A. AND THE COMMISSION WANTS TO PROPOSE A NEW U.A. FOR

THE BANK IN ORDER TO SECURE A PRIME RATING FOR ITS BONDS.

7. FECOM: THE COUNCIL WAS NEGATIVE TOWARD THE COMMISSION'S PROPOSAL TO EXPAND THE FUND'S RESPONSIBILITIES (SEE REFS A AND C). ONLY AT PRESIDENT ORTOLI'S INSISTENCE DID THE COUNCIL AGREE TO ALLOW OTHER EC INSTITUTIONS TO CONSIDER THE PROPOSAL. COMMISSION OFFICIALS DO NOT EXPECT THIS LIMITED OFFICIAL USE

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PAGE 02 EC BRU 10129 02 OF 02 231815Z

PROPOSAL TO BE ADOPTED BECAUSE SEVERAL KEY MEMBER STATES ARE AGAINST IT.

8. TAX PROPOSALS (SEE REF D): AFTER THE COREPER WATERED DOWN THE PROPOSED RESOLUTION ON TAX EVASION AND AVOIDANCE, THE EC COUNCIL AGREED TO ADOPT IT. THE RESOLUTION, WHICH IS CONCERNED WITH IMPROVING EXCHANGES OF INFORMATION BETWEEN TAX AUTHORITIES, CALLS FOR FURTHER COMMISSION STUDY OF SPECIFIC PROPOSALS. FROM THE COUNCIL'S DISCUSSION, COMMISSION OFFICIALS FEAR THAT WHEN THE PROPOSALS ON THIS SUBJECT ARE SUBMITTED THERE WILL BE STIFF OPPOSITION. THE COMMISSION'S DIRECTOR FOR TAXATION DESCRIBED THE COUNCIL'S HANKLING OF THE OTHER TWO TAX ISSUES AS "DISASTROUS". MINISTERS LEFT THE ROOM WHEN THE VALUE ADDED TAX CAME UP, AND DISCUSSION HAD TO BE POSTPONED. THERE WAS NO PROGRESS ON EITHER THE HARMONIZATION OF THE VAT OR OF SELECTED EXCISE TAXES.

9. CONTACT COMMITTEE (SEE REFS C AND E): SEVERAL MEMBER STATES CONSIDERED THE COMMISSION'S PROPOSED DECISION TO BE TOO AMBITIOUS. WHILE MOST AGREED WITH THE CONCEPT OF EXPERTS DRAWING UP BANKING REGULATION, THEY DID NOT WANT TO SET DEADLINES AND DEFINE PRECISELY THE COMMITTEE'S OBJECTIVES. THERE WAS ALSO CONSIDERABLE CONFUSION OVER HOW THE COMMITTEE WOULD RELATE TO FECOM. THE COUNCIL PLANS TO SET UP AN AD HOC GROUP TO STUDY THIS PROPOSAL. GREENWALD

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